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IN THE

# Supreme Court of the United States

NO. ..... OCTOBER TERM, 1935.

DUPLATE CORPORATION and PITTSBURGH PLATE GLASS COMPANY, Petitioners,

v.

TRIPLEX SAFETY GLASS COMPANY OF NORTH AMERICA, Respondent.

## PETITION FOR WRITS OF CERTIORARI TO THE UNITED STATES CIRCUIT COURT OF APPEALS FOR THE THIRD CIRCUIT AND SUPPORTING BRIEF.

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## SUBJECT INDEX.


| | PAGE |
|---|---|
| Petition for writs of certiorari | 1 |
| Summary statement of matter involved | 1 |
| Reasons relied on for allowance of writs | 4 |
| Prayer for writs | 6 |
| Brief in support of petition for writs of certiorari | 7 |
| Opinions of courts below | 7 |
| Jurisdiction | 7 |
| Statement of the case | 7 |
| Specification of errors | 7 |
| Argument | 8 |
| Summary of argument | 8 |
| I. Wastage | 8 |
| II. Plate glass cost | 19 |
| II A. Plate glass patent allowance | 26 |
| III. Method of stating the account | 32 |
| IV. General Damages | 37 |
| V. Interest | 39 |
| Appendix | 44 |


## TABLE OF CASES.


| | |
|---|---|
| Alliance Securities Co. v. De Vilbliss Mfg. Co., 76 Fed. (2nd) 503 | 38 |
| Auto Vacuum Freezer Co. v. Wm. A. Sexton Co., 250 Fed. 459 | 42 |
| Barber Asphalt Paving Co. v. Standard Asphalt & Rubber Co., 30 Fed. (2nd) 281 | 23, 24 |
| Canda Bros. v. Michigan Malleable Iron Co., 152 Fed. 178 | 17 |
| Christensen v. National Brake & Elec Co., 10 Fed. (2nd). 856 | 36 |
| Cincinnati Car Co. v. New York Rapid Transit Corp., 66 Fed. (2nd) 592 | 31, 38 |

PAGE

Continuous Glass Press Co. v. Schmertz Wire Glass Co., 219 Fed. 199 ..... 17
Crosby Steam Gage & Valve Co. v. Consolidated Safety Valve Co., 141 U. S. 441 ..... 18, 40
Dowagiac Mfg. Co. v. Deere & Webber Co., 284 Fed. 331 ..... 42
Dunkley Co. v. Vrooman, 272 Fed. 468 ..... 42
Enterprise Ry. Equipment Co. v. Wine Ry. Appliance Co., 77 Fed (2nd) 159 ..... 38
Fox Typewriter Co. v. Underwood Typewriter Co., 287 Fed. 453 ..... 42
Hemolin Co. v. Harway Dyewood & Extract Mfg. Co., 166 Fed. 434 ..... 23, 24
Levin Bros. v. Davis Mfg. Co., 72 Fed. (2nd) 163 .. 16
L. P. Larson, Jr., Co. v. William Wrigley, Jr., Co., 20 Fed. (2nd) 830 ..... 17
L. P. Larson, Jr., Co. v. William Wrigley, Jr., Co., 277 U. S. 97 ..... 22
Macbeth-Evans Glass Co. v. L. E. Smith Glass Co., 21 Fed. (2nd) 553, 23 Fed. (2nd) 459 ..... 17, 35
Manufacturing Co. v. Cowing, 105 U. S. 253 ..... 15
Mason v. Graham, 23 Wall. 261 ..... 29
Metallic Rubber Tire Co. v. Hartford Rubber Works Co., 275 Fed. 315 ..... 41
Mowry v. Whitney, 14 Wall. 620 ..... 29, 40
Munger v. Perlman Rim Corp., 275 Fed. 21 ..... 42
National Folding-Box & Paper Co. v. Dayton Paper Novelty Co., 97 Fed. 331 ..... 43
National Folding-Box & Paper Co. v. Elsas, 81 Fed. 197, affirmed 86 Fed. 917 ..... 42
National Tube Co. v. Mark, 10 Fed. (2nd) 430 .... 23, 43
Oil Well Improvements Co. v. Acme Foundry & Machine Co., 31 Fed. (2nd) 898 ..... 16
Overman Cushion Tire Co. v. Goodyear Tire & Rubber Co., 66 Fed. (2nd) 361 ..... 38, 39

PAGE

Permutit Co. v. Refinite Co., 27 Fed. (2nd) 695..... 16
Producers' & Refiners' v. Lehmann, 18 Fed. (2nd) 492 ..... 41
Rose v. Hirsch, 94 Fed. 177..... 42
Rubber Co. v. Goodyear, 9 Wall. (U. S.) 788..... 15
Stromberg Motor Devices Co. v. Detroit Trust Co., 44 Fed. (2nd) 958 .....16, 30, 41
Stromberg Motor Devices Co. v. Zenith-Detroit Corp., 73 Fed. (2nd) 62.....16, 30
Tatham v. Lober, 4 Blatch. 86 ..... 36
Tilghman v. Proctor, 125 U. S. 136.....23, 40
Union Elec. Welding Co. v. Curry, 279 Fed. 465; 260 U. S. 727 .....17, 19, 35
Wallace & Tiernan Co. v. Syracuse, 45 Fed. (2nd) 693.....16, 25, 38
Webster Loom Co. v. Higgins, 43 Fed. 673..... 23
Western Glass Co. v. Schmertz Wire Glass Co., 226 Fed. 730 ..... 35
Westinghouse v. New York Air Brake Co., 133 Fed. 936 ..... 42

---

## TABLE OF STATUTES CITED.

Revised Statutes, Section 4921.....7, 37, 44
Judicial Code, Section 240 (a)..... 7

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## PETITION FOR WRITS OF CERTIORARI TO THE UNITED STATES CIRCUIT COURT OF APPEALS FOR THE THIRD CIRCUIT AND SUPPORTING BRIEF.

To the Honorable Charles Evans Hughes, Chief Justice of the United States, and the Associate Justices of the Supreme Court of the United States:

The undersigned, on behalf of the above named petitioners, pray that writs of certiorari issue to review decrees of the United States Circuit Court of Appeals for the Third Circuit entered on December 12, 1935, on cross-appeals by the above named petitioners and respondent in the matter of Triplex Safety Glass Company of North America v. Duplate Corporation and Pittsburgh Plate Glass Company, docketed in said court as Nos. 5606 and 5626, October Term, 1934. The petitioners were defendants in the courts below.

### I

### Summary Statement of the Matter Involved.

This is a patent accounting case arising from the infringement of a patent covering a process for making laminated (also known as "safety" or "nonshatterable") glass, a product that will crack but not shatter. It is a composite structure consisting of two sheets of

glass arranged face to face and having sandwiched between them a sheet of pyralin (celluloid), the pyralin being cemented on both sides to the opposite glass sheets by means of a very thin film of gelatin (Master's Report, R. III—1001), the structure in this form being commonly referred to as a sandwich. The heat and pressure necessary to adhesion are applied by putting the sandwiches on racks in an autoclave, which is simply a steel boiler of large size. When the racks have been filled with sandwiches, the door is sealed and oil (formerly water) pumped into the autoclave under pressure and heated by steam until there is attained a temperature of about 250° and a pressure of about 150 pounds per square inch (Master's Report, R. 1018). When this process is completed, the glass and pyralin are firmly united and in appearance resemble a single sheet of glass.

Infringement was found to result from the use of gelatin "substantially free from contained moisture" for the purpose of cementing the pyralin to the glass: 42 Fed. (2nd) 737. There followed a decree of infringement containing a reference of the case to a special master for the purpose of stating an account of the plaintiff's damages and the Duplate Corporation's profits from the infringement (R. 37), which decree was affirmed by the Circuit Court of Appeals for the Third Circuit: 42 Fed. (2nd) 739. A supplemental consent decree was subsequently entered (R. 40), joining the Pittsburgh Plate Glass Company as a party defendant, making it responsible for any decree entered against Duplate Corporation and calling upon it for a similar accounting. Duplate Corporation was owned in equal shares by Pittsburgh Plate Glass Company and Dupont Viscoloid Company (Master's Report, R. 1002).

The accounting covers the period from January 1, 1928, to May 30, 1930, the date on which infringement

ceased (Master's Report, R. 1044). The principal use for the product has at all times been as windshields and body lights for automobiles (Master's Report, R. 1001, 1055).

The Master recommended (R. 1047, 1049) and the District Court decreed (R. 1112) the imposition of general damages, measured by a so-called reasonable royalty, in the sum of $414,120.70. The lower court added interest on the damages so awarded, from the end of the accounting period (R. 1111), which was over three and one-half years before the Master's Report (R. 999). Cross-appeals were taken to the Circuit Court of Appeals for the Third Circuit, which affirmed the decree on the petitioners' appeal, but reversed it on that of the respondent, with instructions to the District Court to revise its decree in accordance with numerous asserted principles of patent accounting set forth in the reversing opinion (R. 1152-1166). Orders, appropriate to this end, were entered (R. 1167-1168). It is these asserted principles, hereinafter detailed, which form the basis of this petition.

There is no dispute as to the facts on which the Circuit Court of Appeals made its rulings culminating in its orders for a revised decree. The court did not question the findings of fact made by the Master, which had also been approved by the District Court, the latter being in such complete agreement with the Master on the facts that it confirmed the entire report absolutely (R. 1110) and adopted the Master's findings of fact, as well as its own opinion, as the findings required of the District Court by Equity Rule No. 70½ (R. 1113). The District Court further said in its opinion (R. 1104):

> "We go next to the Master's computation of profits and losses. There seems to be no dispute in the case over the correctness of the computation of the amounts; there is no dispute over the cor-

rectness of the figures. The dispute is over the question of whether items deducted are properly and legally allowable as deductions from the sale-price, in order to determine profits."

The good faith of the defendants in manufacturing and selling the product which was ultimately held to be an infringing article has been independently sustained by the findings of the Master (R. 1002-1003, 1044, 1047), the District Court (R. 1104), and the Circuit Court of Appeals (R. 1154-1155).

## II.

### Reasons Relied on for the Allowance of the Writs.

1. The Circuit Court of Appeals has decided a Federal question in a way probably in conflict with applicable decisions of this Court and in conflict with the decisions of other Circuit Courts of Appeals in ruling that, in a patent accounting, an infringer who has acted in good faith cannot treat, as an item of expense, wastage represented by factory operating losses and rejections and returns of defective laminated glass, which was unavoidably concomitant with the manufacture of the good finished product, for which the infringer was accounting to the patentee (R. 1157).

2. The Circuit Court of Appeals has rendered a decision in conflict with decisions of other Circuit Courts of Appeals in ruling that an infringer who has acted in good faith must, in a patent accounting, take credit for a non-infringing and otherwise marketable product (plate glass) manufactured by one of the accountants and subsequently used by the other in making the infringing product, not at its market value when appropriated for the infringing use but only at its cost of manufacture (R. 1165).

2a. The Circuit Court of Appeals has decided a Federal question in a way probably in conflict with applicable decisions of this Court and in conflict with the decisions of other Circuit Courts of Appeals in ruling that in the determination of the cost of this non-infringing commodity (plate glass), the accountant may not charge into its account as an item of expense or allowance, the saving effected in the manufacture of this non-infringing product by process patents owned by the accountant, it having been found as a fact that the saving thus effected was largely responsible for a price which enabled the infringing product to be sold in competition with other articles (R. 1158).

3. The Circuit Court of Appeals has rendered a decision in conflict with decisions of other Circuit Courts of Appeals in ruling that in a patent accounting where costs of specific sales cannot be found because of the continuous nature of the infringement, the accountant must compute what are termed profits on specific sales by deducting average costs of manufacture from specific selling prices, despite an accepted finding that average cost did not fairly reflect actual or specific costs in this case (R. 1155-1157).

4. The Circuit Court of Appeals has rendered a decision in conflict with decisions of other Circuit Courts of Appeals and with the controlling act of Congress in ruling that general damages, measured by a so-called reasonable royalty, may be awarded, in a patent accounting, in the absence of proof that the plaintiff's actual losses cannot be computed and in the face of a refusal of the plaintiff to produce its records so that such a computation of its losses might be undertaken by the accounting defendants (R. 1162-1164).

5. The Circuit Court of Appeals has decided a Federal question in a way probably in conflict with ap-

plicable decisions of this Court and in conflict with decisions of other Circuit Courts of Appeals in ruling that interest on general damages may be awarded against an infringer who has acted in good faith, not merely from the date of the liquidation of the damages, but from the end of the infringing period (R. 1165-1166).

Wherefore the undersigned, on behalf of the aforementioned petitioners, respectfully pray that writs of certiorari be issued out of and under the seal of this Honorable Court, directed to the United States Circuit Court of Appeals for the Third Circuit, requiring that court, on a day certain to be named, to certify to this Court for determination by it the causes numbered on its docket Nos. 5606 and 5626, October Term, 1934, being cross-appeals in the matter of Triplex Safety Glass Company of North America v. Duplate Corporation and Pittsburgh Plate Glass Company, and to send to this Court a full and complete transcript of the record and of all proceedings in the said causes to the end that the decrees of the United States Circuit Court of Appeals for the Third Circuit may be reviewed by this Honorable Court and that your petitioners may have such other and further relief in the premises as to this Honorable Court may seem meet and just. And the undersigned will ever pray, etc.

WILLIAM WATSON SMITH,
LEON E. HICKMAN,
*Counsel for Duplate Corporation and Pittsburgh Plate Glass Company, Petitioners.*

## BRIEF IN SUPPORT OF PETITION.

### Opinions of the Courts Below.

The opinion of the Circuit Court of Appeals (R. 1152-1166) is unreported. The opinion of the District Court of the United States for the Western District of Pennsylvania (R. 1102) is reported in *10 Fed. Supp.* 420.

### Jurisdiction.

The orders of the Circuit Court of Appeals modifying the decree of the District Court were entered December 12, 1935 (R. 1167-1168). The jurisdiction of this Court is invoked under Section 240(a) of the Judicial Code, as amended by Act of Congress, February 13, 1925, c. 229, 43 Stat. 936. The statute, the construction of which is involved, is Section 4921 of the Revised Statutes of the United States, as amended, governing patent accounting. It is hereinafter quoted at page 44.

### Statement of the Case.

The facts have been summarized in the petition, and in the interest of brevity will not be repeated.

The facts being undisputed, this case can be understood in its entirety by an examination of the Master's Report (R. 999) and the opinions of the District Court (R. 1102) and the Circuit Court of Appeals (R. 1152-1166) without reference to the testimony* unless one seeks corroboration or elaboration of the findings of fact.

### Specification of Errors.

Each of the rulings summarized in subdivision II of the petition as reasons relied upon for the allowance of the writs is urged as a reason for granting the writs.

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* Agreeably to Equity Rule 75(b), portions of the evidence were excluded in the preparation of the printed record, and the balance was printed in the form in which it is found in the record pursuant to stipulation of the parties and order of court (R. 1144, 1149).

## ARGUMENT.

### Summary.

1. Every one of the six rulings stated in the petition and urged in support of the writs is in conflict with decisions of other Circuit Courts of Appeals, the court below **conceding conflict** on rulings 4 and 5.

2. Three of the rulings (Nos. 1, 2a, and 5) have decided a Federal question in a way probably in conflict with applicable decisions of this Court, and another (No. 4) in conflict with a statute of the United States.

3. Combined, the six rulings are as important as the law of patent accounting itself. One of the rulings (No. 1) is inherent in every patent accounting case which involves an infringer's manufacturing operations, two others (Nos. 4 and 5) are inherent in every case where general damages measured by a so-called reasonable royalty are under consideration, and the others (Nos. 2, 2a and 3) constantly arise in patent accounting cases.

### I.

### WASTAGE.

**(Factory Operating Losses, Rejections and Returns of Defective Glass)**

The Circuit Court of Appeals, reversing the District Court, disallowed wastage in the form of cost items aggregating $1,477,364.84 for rejects and returns of defective laminated glass and $219,036.93 for pyralin losses (R. 1157). The first figure is a compilation not used by the District Court or the Master, but submitted to the Circuit Court of Appeals at pages 35-37 of the plaintiff's brief. This compilation, the arithmetic of

which we do not dispute, was made by adding these five items, the following explanation of which we submit, with deference, demonstrates the error of the Circuit Court of Appeals:

$538,019.87, representing the cost of labor, material (exclusive of plate glass) and other things that went into the product which was **unavoidably destroyed in the factory** in the process of manufacturing the good infringing product. This cost was allowed by the Master (Finding of Fact 12, R. 1046) and, as shown by the "Statement of Account Per Finding of Special Master" (R. 1065) was computed by him from defendants' Exhibit "O" (filed as an original exhibit), which sets forth the defendants' factory operating losses. From the recapitulation of these losses set forth on the first page of this Exhibit at $1,662,637.39, he deducted* $1,124,617.62, representing the plate glass cost included therein at the figure at which it had been charged into this Exhibit, leaving a net loss, exclusive of the cost of plate glass, totaling $538,019.87 (R. 1065).

Factory Wastage—exclusive of plate glass.

$435,207.52, representing the cost of the plate glass which went into the **destroyed product** referred to in the preceding item. This figure is computed by multiplying the feetage of the destroyed plate glass as found by the Master (in 1928, 1,521,665 sq. ft.; in 1929,

* Cost of plate glass was deducted because treated separately by the Master at a lower cost.

Factory Wastage—plate glass.

1,090,072 sq. ft.; and in 1930, 148,233 sq. ft.—R. 1065) by the bare manufacturing cost thereof as contended for by plaintiff (found by the Master to be only part of the true cost, R. 1067). Thus for 1928, 1,521,665 sq. ft. (R. 1065) at $.15590 a sq. ft. (R. 1067—top) is $237,227.57; for 1929, 1,090,072 sq. ft. (R. 1065) at $.15637 a sq. ft. (R. 1067—top) is $170,454.56; and for 1930, 148,233 sq. ft. (R. 1065) at $.18569 a sq. ft. (R. 1067—top) is $27,525.39, or a total for the three years of $435,207.52.

Wastage—returns, exclusive of plate glass cost.

$286,041.61, representing the cost of labor, material (exclusive of plate glass) and other things that went into the defective product which was returned by customers during the accounting period. This cost was allowed by the Master (Finding of Fact 13, R. 1046) and, as shown by "Statement of Account Per Finding of Special Master" (R. 1065), was computed by him from plaintiff's Exhibit "9"*, which sets forth the cost of manufacturing returned sales. From the recapitulation of these losses in Exhibit "9" at $631,280.83, he deducted** $345,239.22, representing the plate glass cost included therein at the figure at which it had been charged into this Exhibit, as shown by defendants' Exhibit "Z",* leaving a net loss, exclu-

* Filed as an original exhibit.

**Cost of plate glass was deducted because treated separately by the Master at a lower cost.

sive of the cost of plate glass, totalling $286,041.61.

$135,307.20, representing the cost of plate glass which went into the defective product referred to in the preceding item. This figure is computed by multiplying the feetage of plate glass in the laminated glass returned by customers during the accounting period as defective as found by the Master (in 1928, 118,699 sq. ft. of laminated glass, or 237,398 sq. ft. of plate glass; in 1929, 282,411 sq. ft. of laminated glass, or 564,822 sq. ft. of plate glass; and in 1930, 26,861 sq. ft. of laminated glass, or 53,722 sq. ft. of plate glass—R. 1065) by the bare manufacturing cost thereof as contended for by plaintiff (found by the Master to be only part of the true cost, R. 1067). Thus for 1928, 237,398 sq. ft. of plate glass (R. 1065) at $.15590 a sq. ft. (R. 1067—top) is $37,010.34; for 1929, 564,822 sq. ft. of plate glass (R. 1065) at $.15637 a sq. ft. (R. 1067—top) is $88,321.22; and for 1930, 53,722 sq. ft. of plate glass (R. 1065) at $.18569 a sq. ft. (R. 1067—top) is $9,975.64, or a total for the three years of $135,307.20.

Wastage—returns of plate glass.

$82,788.64, representing the cost of labor, material (including plate glass), and other things that went into the product which was sold during the accounting period, but subsequently returned by customers as defective. This cost was allowed by the Master (Finding of

Wastage—returns after accounting period.

Fact 14, R. 1046) and again appears in his account at the bottom of R. 1067.

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$1,477,364.84

The first and second items, amounting to $538,019.87 and $435,207.57, respectively, comprise the cost of wastage **within the factory** and constitute sixty-seven per cent. of the wastage item of $1,477,364.84, disallowed by the Circuit Court of Appeals. These losses within the factory began with the delivery of the plate glass by the Plate Glass Company to Duplate Corporation and continued through the cutting (Masters' Report, R. 1015), transportation (Master's Report, R. 1016), assembling (Master's Report, R. 1016), pressing (Master's Report, R. 1017) and edging (Master's Report, R. 1019) departments and concluded with the rejection, on final inspection, of a comparatively small amount of defective product. A large part of such losses within the factory occurred prior to the completion of a laminated glass product. The figures are set forth in Exhibit "O" (filed as an original exhibit).

The cost of pyralin, likewise a plain wastage item, was disallowed by the Circuit Court of Appeals (R. 1157) in the amount of $219,036.93, as we have stated, supra, page 8. This item represented pyralin loss which took place **within the factory,** in the cutting, transportation or assembling departments, above mentioned, but before the pyralin was assembled between sheets of plate glass into a so-called sandwich, the Master explaining it to be "losses in pyralin prior to assembly up to May, 1929" (R. 1029) and therefore a proper allowance (R. 1030). The District Court similarly allowed it as a cost item on the finding that "the pyralin that was used in glass that did not turn out perfectly was as much a cost of production as any other part of

the factory operation" (R. 1106). The Circuit Court of Appeals, while not disturbing the aforementioned findings of fact, denied that the cost of this pyralin wastage was a proper allowance, following its erroneous theory of rejecting wastage.

The dispute as to the allowance of such wastage as an item of cost is one of law, the District Court having found (R. 1104) and the Circuit Court of Appeals apparently agreeing (R. 1157, 1165) that:

> "There seems to be no dispute in the case over the correctness of the computation of the amounts; there is no dispute over the correctness of the figures. The dispute is over the question of whether items deducted are properly and legally allowable as deductions from the sale-price in order to determine profits" (R. 1104).

The legal propriety of the allowance of this wastage as an item of manufacturing cost plainly depends on its relation to the manufacture of the good finished product for which the petitioners are accounting. Its relation has been found by the Master to be as follows:

> "The records of the defendant as to 'Factory Operating Losses' above mentioned appear to be full and complete, and the testimony of Messrs. Clause and Sherts as to the details of the various operations have convinced the Master that **the large operating losses which occurred were unavoidably concomitant with the manufacture of the good finished product** and were necessary elements in the cost of the production of the good product and are, therefore, allowed as claimed" (R. 1021—black face type ours).

These facts were summarized by the Master in his formal finding (R. 1045) as follows:

> "11. That the hazards connected with the manufacture of laminated glass were such that a

considerable amount of the infringing product had to be rejected or 'scrapped' in order that a certain volume of salable specimens might be produced."

Not only were the Master's Report and his findings confirmed and adopted by the District Court (R. 1110, 1113), but that court similarly found (R. 1105-1106):

"(b) **Factory-Operating Losses—(Rejects and Returns).** The master has found that a considerable amount of laminated glass had to be turned out only to be rejected or returned **in order that a certain volume of perfect specimens might be sold,** and has allowed these rejects and returns as operating losses **unavoidably connected** with the manufacture of good finished product, and as **necessary elements in the cost** of production of a good product. We agree with the master in his conclusion, and in so doing, we are again following Judge Thomson in the conclusion announced by him in MacBeth Evans Glass Co. v. L. E. Smith, 21 Fed. (2) 553, where Judge Thomson held in a glass-lens case that credit must be given as a part of the cost of manufacture, for defective-lenses, loss from bad debts, discounts, and allowances reasonably incident to the business in order that the defendants be charged only with the profits actually made." (black face type ours.)

Salvage was satisfactorily accounted for (Master's Report, R. 1022) and was never an issue. The Circuit Court of Appeals did not question the foregoing fact findings.

**The error of the ruling.** If the cost of the product destroyed in the course of manufacture "but for which the good ones could not have been produced" or returned "in order that a certain volume of perfect specimens might be sold" (Master's Report, R. 1020-1021) is not to

be allowed as an element of cost to an infringer who has acted in good faith, it is idle to say that a patentee is recovering merely an infringer's profits. The accountant is being penalized far beyond its profits. The necessity of putting one hundred sandwiches into the autoclave in order to produce eighty good ones is not different in principle from that of putting a charge into a blast furnace or a batch into a glass furnace in order that a comparable percentage of the raw material may find its way into the finished product, while the residue is consumed by the heat and goes up in smoke.

The matter cannot be better stated than in the report of the Master (R. 1020):

> "It was also established by the evidence that even the Ford Motor Company, in making laminated glass under its agreement with the plaintiff, was required to produce five million windshields in order to obtain four million good ones,—and it appears as self-evident to the Master that in the case of Ford, as in the case at bar, the cost of producing the good ones necessarily included the cost of producing the million bad ones, but for which the good ones could not have been produced."

**The conflict of authorities.** The decision of the Circuit Court of Appeals as to factory operating losses, rejects and returns necessarily incident to the sales on which profits are sought is a decision of a Federal question in conflict with applicable decisions of this Court. The Circuit Court of Appeals has departed from the ruling in *Manufacturing Co. v. Cowing,* 105 U. S. 253, 257, where a decree was reversed, among other reasons, because the lower court had allowed the accountant "nothing for wastage." The Circuit Court of Appeals has departed from the fundamental principle of patent accounting decreed in *Rubber Co. v. Goodyear,* 9 Wall.

(U. S.) 788, 804, where it was held that "the calculation is to be made as a manufacturer calculates the profits of his business," this court going on to explain that the cost of materials, the expenses of manufacture, and other necessary expenses should be treated as items of cost in computing profits.

The decision of the Circuit Court of Appeals on this issue is in conflict with a decision of the Circuit Court of Appeals for the Second Circuit, in which it has been ruled that money expended in reimbursement to customers for returned defective product is a proper item of cost even though the product was not returned until after the period of infringement: *Permutit Co. v. Refinite Co.*, 27 Fed. (2nd) 695, 697.

The decision of the Circuit Court of Appeals on this issue is in conflict with decisions of the Circuit Courts of Appeals for the Second, Sixth, Seventh, and Eighth Circuits, in each of which the court has ruled that in an accounting for profits there should be deducted from gross receipts every item of expense incurred in good faith as an incident to the manufacture or sale of the product being accounted for:

*Stromberg Motor Devices Co. v. Zenith-Detroit Corp.*, 73 Fed. (2nd) 62, 64-65 (C. C. A., 2nd Cir.);

*Levin Bros. v. Davis Mfg. Co.*, 72 Fed. (2nd) 163, 165-166 (C. C. A., 8th Cir.);

*Wallace & Tiernan Co. v. Syracuse*, 45 Fed. (2nd) 693, 695 (C. C. A., 2nd Cir.);

*Stromberg Motor Devices Co. v. Detroit Trust Co.*, 44 Fed. (2nd) 958, 963-964 (C. C. A., 7th Cir.);

*Oil Well Improvements Co. v. Acme Foundry & Machine Co.*, 31 Fed. (2nd) 898, 900 (C. C. A., 8th Cir.);

*L. P. Larson, Jr., Co. v. William Wrigley, Jr., Co.*, 20 Fed. (2nd) 830, 832, 834 (C. C. A., 7th Cir.); modified on another point, 277 U. S. 97;

*Union Elec. Welding Co. v. Curry*, 279 Fed. 465, 467 (C. C. A., 6th Cir.), certiorari denied, 260 U. S. 727;

See *Canda Bros. v. Michigan Malleable Iron Co.*, 152 Fed. 178, 180 (C. C. A., 6th Cir.).

In the *Canda Bros.* case, the court did not permit the deduction because not related to the manufacture or sale of the product being accounted for, but ruled the controlling test to be (page 180):

"that losses occurring concurrently with the gaining of profits may be taken into account—that is to say, if they are losses directly resulting from the particular transaction on which the profits are allowed."

The item of expense in the *Union Elec. Welding Co.* case was the aggregate net loss for the first year of the infringement—profits resulting only in subsequent years—allowed because it was "a part of the expense incurred in working up the business and bringing about the profits in the later period" (page 467). The wastage in the instant case is much more directly related to the profit-making sales.

The decision of the Circuit Court of Appeals on this issue is also in conflict with its own earlier rulings in *Continuous Glass Press Co. v. Schmertz Wire Glass Co.*, 219 Fed. 199, (certiorari denied, 238 U. S. 623), and *Macbeth-Evans Glass Co. v. L. E. Smith Glass Co.*, 23 Fed. (2nd) 459. It was ruled in the *Continuous Glass* case (page 203) that:

"the cost of producing waste was an ingredient in the cost of producing the resultant finished prod-

uct, to the benefit of a credit for which, as against the profits to be charged to it, the defendant is entitled."

In the Macbeth-Evans case the court specifically held that "waste" is "a cost properly chargeable to manufacture" (page 462) and the court affirmed, on all points here material, "an illuminating discussion on the law" (page 460) by the lower court (21 Fed. (2nd) 553), which had held (page 555):

"losses occurring concurrently with the gaining of profits should be taken into account, if they resulted from the particular transaction on which the profits are allowed. In other words, though called losses, they are really diminutions, which are taken into account in reaching the resultant profits of the sales, on which profits were made."

. . .

"Hence, in determining the profits, if defendant is charged with the gross sales at the gross selling price, it must be credited with all those items which entered into the cost of manufacture and sale, such as **lenses returned, defective lenses,** the loss from bad debts and accounts in the sale of the infringing lenses, and also such discounts and allowances as were reasonably incident to the business, so that the defendant may be charged only with the profits actually made." (black face type ours.)

These two cases were treated by the Master as decisive of this case (Master's Report, R. 1020), and the District Court cited the *Macbeth-Evans* case as controlling (R. 1105). Neither case is mentioned in the reversing opinion of the Circuit Court of Appeals.

It is clear that the case cited (R. 1157) by the Circuit Court of Appeals (*Crosby Steam Gage & Valve*

*Co. v. Consolidated Safety Valve Co.*, 141 U. S. 441) is inapplicable because it merely ruled that the cost of making experimental valves (see page 454) could not be charged as an expense of the infringement. Likewise all experimental items were rejected by the Master in the instant case (R. 1023-1024). We also call attention to the fact that the Circuit Court of Appeals for the Sixth Circuit has held that the *Crosby* case is inapplicable to a situation where the item of loss or expense bears a direct relation to the profitable sales: *Union Elec. Welding Co. v. Curry, supra,* 279 Fed. 465, 467.

Furthermore, the Circuit Court of Appeals may have been confused in the case at bar by other cases cited to it to the effect (1) that the cost of unsold inventory on hand at the end of the accounting period cannot be treated as an item of expense (there being no such inventory in this case, R. 1106), and (2) that in a series of isolated infringements, loss producing sales cannot be carried into the account. It is submitted that Judge Schoonmaker was clearly right in holding (R. 1106) that such cases were inapplicable to the case at bar.

## II.

### The Proper Accounting Basis for a Non-Infringing and Otherwise Marketable Material Used in the Infringement.

**The ruling.** The manufacture of the infringing laminated glass was performed by Duplate Corporation, one of the accountants. Pittsburgh Plate Glass Company sold to it the plate glass and Dupont Viscoloid Company the pyralin so used by it in manufacturing laminated glass (Opinion, R. 1109). The Plate Glass Company and the Dupont Company each owned fifty per

cent. of the stock of Duplate Corporation (Master's Report, R. 1002; Opinion, R. 1109). No exception has been taken by the plaintiff to charging pyralin into the account at the price actually paid for it by Duplate Corporation, but the plaintiff was successful in inducing the master to rule that **plate glass should be carried into the account not at its market value or what Duplate Corporation actually paid for it, but at manufacturing cost of the glass to the Pittsburgh Plate Glass Company** (Master's Report, R. 1047). This position has been affirmed by the Circuit Court of Appeals in the following language (R. 1165):

> "The defendants also assign error to the master's ruling that Pittsburgh could charge only the manufacturing cost of one-eighth inch glass and not the market price. We agree with the master, for the reasons well stated by him, that the applicable authority is not Barber Asphalt Paving Co. v. Standard Asphalt & Rubber Co., 30 F. (2d) 281, cited by the defendants."

While the Circuit Court of Appeals felt able to dispose of this matter in two sentences, it involves a minimum of $713,036.29* and, on the Circuit Court of Appeals' further ruling (R. 1158) concerning an allow-

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* The manufacturing cost of thin plate glass used by Duplate Corporation as computed by the Master (Master's Report, R. 1067) under subheadings "Manufacturing Costs", "Interest on Investments", "Allowance for Use of Patent Process", "Federal Income Tax", and "Loss Cutting" aggregates $3,403,414.11. The price at which Duplate Corporation purchased this glass, which was the market price or lower, was found by the Master to be $4,116,450.40 (Master's Report, R. 1065), making a difference of $713,036.29 between manufacturer's cost and the market price paid by Duplate Corporation.

ance for use of the Plate Glass Company's own patents, the additional sum of $1,108,692.73 (Master's Report, R. 1067) hereinafter discussed (*infra,* pages 26-32).

The Master's Report contains the following findings, which demonstrate that the plate glass appropriated for the infringing use had a long and well-established market for non-infringing purposes and that Pittsburgh Plate Glass Company had sold plate glass to the automotive industry long prior to the infringement. It was found (1) that plate glass of the very thickness used in the infringement had well-established uses and consequently "a general market value outside of the automobile industry" quite apart from its infringing use (Master's Report, R. 1055, 1057); (2) that the Pittsburgh Plate Glass Company had sold a considerable quantity of one-quarter-inch plate glass to automobile manufacturers for windshields or body lights in automobiles prior to the infringement (Master's Report, R. 1002); (3) that the infringing article was not a new article of commerce in the sense that it would have been had there been no windshields or body lights in automobiles prior to the infringement (Master's Report R. 1002); and (4) that the plate glass that went into the infringing windshield or body light was one-eighth inch in thickness rather than one-quarter inch as previously used (Master's Report, R. 1002), due to the fact that the infringing product comprised two sheets of plate glass (Master's Report, R. 1055) instead of one as formerly. **The plate glass appropriated for the infringing use was in no sense different from the other plate glass manufactured by the Pittsburgh Plate Glass Company for other purposes. There were no special runs or anything of that kind** (R. 769).

The ruling that this non-infringing and otherwise marketable plate glass must be accounted for at cost

rather than market value or the price paid for it by Duplate Corporation, was predicated upon the assertion that the infringement had created an additional market for this plate glass (Master's Report, R. 1061). The Master relied strongly upon the argument that if the decisions of three Circuit Courts of Appeals, hereinafter cited at page 23, were followed, it would be easy for an infringer who was operating in bad faith to divert his profits into the non-infringing product (Master's Report, R. 1058-1059), overlooking the fact that it would be entirely possible to have one ruling for a party who had acted in good faith in its infringement and a different rule for one who had not. This very distinction prevails in regard to allowance for Federal income taxes actually paid (*Larson Co. v. Wrigley Co.*, 277 U. S. 97) and, as a result of that ruling, presumably in other aspects of patent accounting.

**The error of the ruling.** The plaintiff is not merely made whole by receiving the defendants' profits on laminated glass; it is given a bonanza of large proportions in the form of easily segregated profits earned wholly on a non-infringing and otherwise marketable article, i. e., plate glass. If the defendants had bought this non-infringing marketable commodity from a third party, the patentee could not have expected to get such third party's profits, as, in this case, they make no attempt to get the profits of Dupont Viscoloid Company on pyralin. If, by fortuitous circumstance, the infringer does his own manufacturing of the non-infringing and otherwise marketable product, it is a circumstance which does not damage the patentee and from which it is not entitled to profit. Any doubt of the fundamental fairness of this assertion may be quickly dispelled by considering the converse situation. If the Pittsburgh Plate Glass Company had lost money on its plate glass while Duplate Corporation had made a profit on its laminated,

does anyone imagine that the plaintiff would concede that the profits from the sale of laminated glass should be decreased by the losses on the sale of plate glass? It would not have been allowed: *Tilghman v. Proctor,* 125 U. S. 136, 146.

**The conflict of authorities.** The ruling in the case at bar has been accurately stated by the Master (R. 1047):

> "That Pittsburgh Plate Glass Company is entitled to credit for only the manufacturer's cost of the one-eighth-inch plate glass used by it, or sold by it to and used by Duplate Corporation, in making laminated glass in infringement of the patent in suit."

The decision of the Circuit Court of Appeals on this point is in conflict with decisions of the Circuit Courts of Appeals for the Second, Sixth, and Seventh Circuits in each of which the court has ruled that the market value at the time of transfer to the infringing use, rather than the cost to the infringer, is the proper basis for determining profits:

*Barber Asphalt Paving Co. v. Standard Asphalt & Rubber Co.,* 30 Fed. (2nd) 281, 284 (C. C. A., 7th Cir.); certiorari denied, 278 U. S. 659;

*National Tube Co. v. Mark,* 10 Fed. (2nd) 430, 431 (C. C. A., 6th Cir.);

**Hemolin Co. v. Harway Dyewood & Extract Mfg. Co.,* 166 Fed. 434, 436 (C. C. A., 2nd Cir.).

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* Accord: *Webster Loom Co. v. Higgins,* 43 Fed. 673, 674-675 (S. D. N. Y.).

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* Accord: *Webster Loom Co. v. Higgins,* 43 Fed. 673, 674-675 (S. D. N. Y.).

It was held in the *Barber Asphalt* case (page 284):

"(a) That, where the infringer purchases material for use in manufacturing an infringing commodity, the cost price of the material rather than its market value should be used in computing profits.

(b) Where noninfringing commodities which are marketable, that is, fit for market, are produced by the infringer and subsequently used by him in making the infringing products, then market value (ordinarily selling or transfer value) rather than cost to the infringer, is the proper basis for determining profits."

It was held in the *Hemolin* case (page 436):

"The raw materials of the patent are the paste and the nitrite, which are to be treated together to produce the result. In figuring profits obtained by use of the process of the patent, the first element is the market price of the raw materials employed. The circumstance that defendant made the paste is as immaterial as would be the circumstance that he made the nitrite. Both of these substances are well-known marketable commodities, wholly outside the patent. If the infringer buys them of some one else at the market price, that is an element of cost. If he buys them of himself, he is entitled to have their cost taken as including the profit he would have had to pay the outsider. In producing those commodities, not covered by the patent, he is entitled to whatever profit he has earned, and the patentee may not call him to account for one penny of it."

The Master conceded that other Circuit Courts of Appeals had ruled that a non-infringing and otherwise marketable product should be accounted for at its

market value at the time of appropriation to the infringement, even though the infringement had the effect of extending an existing market for the raw material (Master's Report, R. 1060-1061). He also conceded that in none of these cases had the courts limited their decisions to the extent suggested by him and later decreed in the case at bar (Master's Report, R. 1058).

While it makes no difference in the result which of the foregoing rules, (a) or (b), is applied to the case at bar, it is the fact that Pittsburgh Plate Glass Company and Duplate Corporation are entirely separate entities and that the latter purchased plate glass from the former. This was recognized by the District Court (R. 1109), but was denied by the Master, who treated the two defendants as one (Master's Report, R. 1054). Presumably, therefore, the District Court felt that rule (a) was applicable, while it appears from the Master's Report (R. 1056) that he applied rule (b). It makes no difference in the result.

The decision of the Circuit Court of Appeals on this issue is in further conflict with a decision of the Circuit Court of Appeals for the Second Circuit, which has ruled that a manufacturer who infringes a patent should be allowed "a reasonable manufacturing profit upon the unpatented part of the apparatus": *Wallace & Tiernan Co. v. Syracuse, supra,* 45 Fed. (2nd) 693, 695. The conflicting ruling in the instant case was that the Plate Glass Company could charge "only the manufacturer's cost of the one-eighth-inch plate glass" (Master's Report, R. 1047).

## II-A.

### The Disallowance of the Saving Effected by Twenty-Six Pittsburgh Plate Glass Company Patents on Plate Glass.

**The ruling.** This argument is a subdivision of argument II dealing with the ruling that the Pittsburgh Plate Glass Company must account at cost rather than market price for the plate glass which was appropriated for the infringing use.

Erroneous as we submit the ruling on the allowance for plate glass to have been, the further decision of the Circuit Court of Appeals (R. 1158) that in the computation of this cost the Plate Glass Company is not to be given credit for the saving effected in its cost of plate glass by twenty-six patents owned and used by it in the manufacture of plate glass stretches a harsh ruling beyond its elastic limit. **Not one of these patents belongs to the plaintiff.**

The District Court accepted (R. 1107) and the Circuit Court of Appeals did not controvert the finding of the Master that the savings effected by these patents amounted to $1,108,692.73 (R. 1067). There was no confusion between this saving and the profits on laminated glass because the saving was in the field of plate glass manufacture and easily demonstrated (Master's Report, R. 1010; Opinion, R. 1106-1107). The District Court found as a fact (R. 1107), which the Circuit Court of Appeals did not question, that this saving was a very large factor in enabling the defendants to sell laminated glass in competition with the much cheaper plate glass, theretofore used in automobile windshields and body lights:

"We have reviewed the evidence on this subject, and we are of the opinion that the master correctly ruled the case. It appears to us from the testimony that the defendants' patented process was a very large factor in the saving of manufacturing costs which would permit the sale of laminated glass in competition with other glass. During the infringing period, laminated glass was competing with ordinary plate-glass windshields, and must of course be offered to the market at a price which would make them salable in comparison with ordinary plate-glass" (R. 1107).

Even with the advantage of this saving, **plate glass** outsold **laminated** glass in the automotive industry by a wide margin throughout the accounting period (Master's Report, R. 1036-1038).

The Circuit Court of Appeals has reversed this ruling (R. 1158) on the arguments, (1) that the patents did not enable the Pittsburgh Plate Glass Company to make a superior quality of plate glass and therefore did not result in a superior type of laminated glass, and (2) that the law is settled that where the entire commercial value of a product arises from a patent, its owner is entitled to recover the entire profits derived from the manufacture and sale of that product.

We submit, with deference, that it is immaterial whether the Plate Glass Company's patents resulted in an improved product. The material consideration is that **the patents belonged to the Plate Glass Company, not to the plaintiff,** and that the profits resulting from their use occurred in the manufacture not of **laminated,** but of **plate glass.**

The rule that where the entire commercial value of a product arises from a patent its owner is entitled to

recover the entire profits, has no application to a situation presented by the undisputed finding (R. 1107) that it was the reduction in cost brought about by these very patents that made it possible to sell laminated glass, and in view of the further incontrovertible fact that plate glass is a well-known marketable commodity, both in and out of the automobile business, quite apart from any infringing use.

**The error of the ruling.** If the ruling of the Circuit Court of Appeals is adopted, a patent accounting becomes a proceeding not primarily to make a patentee whole, but to penalize one who has infringed by stripping from him everything even remotely connected with the infringement and turning it over to the patentee. The ruling is applied not merely to a deliberate infringer, but in the case at bar to companies which have been found to have acted in good faith in their infringement. The Pittsburgh Plate Glass Company has twenty-six patents which it used to make a marketable plate glass. The plaintiff has one patent on making a sandwich of two sheets of that glass primarily for use as automobile windshields and body lights, which were not new articles of manufacture, but simply improvements over the old. The old plate glass outsold laminated glass for automotive use by a wide margin throughout the entire accounting period, which ended May 30, 1930, (Master's Report, R. 1036-1038). Yet the Pittsburgh Plate Glass Company must turn over to the plaintiff not merely the profits attributable to the latter patent, but the savings which both of the lower courts have accepted as having been made possible by the twenty-six plate glass patents, in none of which the plaintiff has any right or interest whatever.

**The conflict of authorities.** The decision of the Circuit Court of Appeals that the Pittsburgh Plate Glass

Company was not entitled to the savings in the manufacture of plate glass brought about by the patents owned by it is a decision of a Federal question in conflict with applicable decisions of this Court that a manufacturing infringer is entitled to an allowance for the savings in manufacture effected by his own patents. It was ruled in *Mason v. Graham,* 23 Wall. (U. S.) 261, 277:

> "We think, also, that the defendant has been excessively charged for the profits made by him on the 346 beds, and the 1548 rockers sold by him at various times for the repair of bridle motions previously made. **He has been credited with the cost only, without reference to the fact that the cost was reduced by his own invention."** (black face type ours.)

A similar ruling was made in *Mowry v. Whitney,* 14 Wall. (U. S.) 620, 650-651, where it was held:

> "the court decreed against the defendant the entire profits made by him in the manufacture and sale of the wheels from beginning to end, not only the profits resulting from the reheating and regulated slow cooling in connection, but also those which may have resulted from mixing and melting the iron, casting in molds, making the chill, and from the possible advance on the iron above its cost, with interest on the whole.
>
> "This we think was an error." (page 650)
>
> . . .
>
> "The same principle, therefore, which gives to the complainants the aggregate profits of the entire manufacture would give the same profits to a patentee of the process of chilling, if there were one, and as there are many processes in the manufacture, for each of which it is conceivable there might be a patent, and as every one of the processes is nec-

essary to make a marketable wheel, **an infringer might be mulcted in several times the profits he had made from the whole manufacture.** We cannot assent to such a rule" (pages 650-651—black face type ours.)

The decision of the Circuit Court of Appeals on this issue is in further conflict with decisions of the Circuit Courts of Appeals for the Second and Seventh Circuits, where it has been ruled that an infringer is entitled to treat, as an item of expense, royalties paid to a third party on a patent used in the course of making the infringing product, even though the third party to whom the royalty was paid was the owner of most of the stock of the infringer:

*Stromberg Motor Devices Co. v. Detroit Trust Co., supra,* 44 Fed. (2nd) 958, 962 (C. C. A., 7th Cir.);

*Stromberg Motor Devices Co. v. Zenith-Detroit Corp., supra,* 73 Fed. (2nd) 62, 65 (C. C. A., 2nd Cir.).

The District Court, relying upon the cases last cited, stated in justification of its allowance of a comparable royalty to the Pittsburgh Plate Glass Company (R. 1107):

"If the defendants had been paying royalty on these twenty-six patents that were involved in their process of manufacture, that payment, of course, would have been an allowable deduction. We can see no distinction if they themselves happened to own the patents. We believe they should be entitled to a reasonable royalty-allowance on account of their patents."

The Master's ruling to the same effect was predicated upon the decisions of this Court above quoted, (*supra,* pages 29-30).

The Circuit Court of Appeals in the case at bar cites in justification of its reversing ruling (R. 1158) authorities said to be applicable "where the entire commercial value of a mechanism or product arises from the patent improvement." It is submitted that this line of authority is plainly inapplicable to the case at bar. If it were applicable, it would be in conflict with the decision of the Circuit Court of Appeals for the Second Circuit in *Cincinnati Car Co. v. New York Rapid Transit Corp.*, 66 Fed. (2nd) 592, 593, 594, where it was held that the owner of one of several patents covering an infringing article could not collect the entire profits from the sale of that article by an infringer **even though the article could not have been sold without the use of the invention covered by the infringed patent.** It was held:

> "It is of course possible to imagine an invention for a machine, or composition, or process, which is a complete innovation, emerging, full grown, like Athene, from its parent's head. It would then be easy to say that profits were to be attributed wholly to the invention. Such inventions are however mythological. All have a background in the past, and are additions to the existing stock of knowledge which infringing articles embody along with the invention" (page 593).
>
> "When it (the entire value) is to be so attributed was left at large; but **we doubt whether it is enough that the article could not have been sold or used without the improvement.** That is indeed material on the issue of damages, since it goes far to show that the patentee, who alone could have supplied the demand, would have got the sales. But it cannot really determine how much of the infringer's profits are due to the patent. True, the improvement in such a case is a condition, but so is everything else which the infringer uses and owes to

the prior art" (page 594—matter in parenthesis and black face type ours).

It would seem doubly clear that the plaintiff could not get both laminated glass and plate glass profits in the instant case because plate glass, which does not involve the plaintiff's patent, could be and was sold apart from an infringing use.

## III.

### Method of Stating the Account.

**The ruling.** The Circuit Court of Appeals has directed (R. 1155-1157) the District Court not merely to determine profits on profit-making sales, disregarding those made at a loss, but to compute them by deducting the average cost of manufacture from the specific sales price on each transaction. This reversal of the District Court again presents a question of law, there being no disagreement between the tribunals (R. 1155-1157, 1165) as to the facts. The District Court found it to be the fact that (R. 1105):

> "The defendants were engaged in a regular and continuous business during the period of these operations in the manufacture of infringing glass. In this continuous business, the infringing glass cannot be treated separately."

Both the Master (R. 1025-1026) and the District Court (R. 1106) recognized the long-established rule that profitable sales were to be accounted for while loss-producing sales were not to be deducted, but they were confronted with the practical problem that every court must face in attempting to determine those profits where the infringer is engaged in a regular and continuous business in which there is in effect one continuous infringement, rather than a series of isolated ones and in

which it is a practical impossibility to determine the specific cost of a given sale. As the District Court commented (R. 1105):

> "To determine truly the profits or losses, sales-prices must be compared with specific costs of items of manufacture of the infringing article."

That being impossible the court was confronted with three alternatives: (1) it could realistically treat the business as one continuous infringement, as in fact it was, and compute the aggregate net profit on that continuous infringement; or (2) it could treat each sale as a separate infringement, but due to the impossibility of determining actual costs on that sale, compute the profit by deducting from an average selling price for such product an average cost; or (3) it could work out an average cost based upon one continuous infringement, and then, shifting theories, contrast that average with the specific revenue received for each sale.

Both the Master and the District Court, finding the third method inequitable and inconsistent with itself, adopted the first. The inequity of the third method as applied to this case arose from the fact that average costs did not in fact reflect specific costs, because, as the Master pointed out (R. 1026-1027):

> "In this particular instance, however, *average* costs do not reflect *specific* costs for many reasons, among them the following:
>
> (1) All production does not cost the same per foot in any given month due to difference in cost of glass on account of size, bracket and quality, and in cost of pyralin because of finish and size of sheet.
>
> (2) Cutting losses of different brackets of glass are not equal nor are losses in operation equal.

(3) Edge work was performed on some sales and not on others, causing a considerable spread in cost of manufacturing.

(4) The cost of an order for one thousand windshields is much less per light than the cost of an order for ten windshields, because, regardless of the size of the order, a template must be made and can be used for a thousand lights as well as ten" (italics by Master).

The District Court adopted these findings (R. 1105, 1113), but the Circuit Court of Appeals, while not disagreeing with the findings (R. 1155-1157, 1165), disagreed with the conclusion.

The Circuit Court of Appeals has apparently ruled as to the three alternatives previously mentioned (*supra,* page 33): (1) that there is a rigidity to patent accounting which excludes in every case the possibility of treating an infringement as one continuous act; (2) that there is no room for a middle-of-the-road position that, if average costs are to be used, they should be deducted from average selling prices to determine profits; and (3) that where there is in fact one continuous infringement, it is to be treated as such for the purpose of computing an average cost but broken up into a series of specific infringements corresponding to particular sales for the purpose of ascertaining specific receipts regardless of the fact that the individual sales may be of a product so expensive to make that it costs much more than the average prices.

**The error of the ruling.** If an infringement in the course of a regular and continuous business is so much a single act that actual costs cannot be computed, even though it is known that the cost of different articles varies considerably, then it is submitted that there has

been a single continuing act of infringement and that it should be so treated not only in determining costs, but in computing revenues and determining profits.

Under no circumstances should it be permissible to compute profits by deducting an average cost from the proceeds of a specific sale. Not only may such costs bear no accurate relation to actual or specific costs, as in the case at bar, but in every case an average cost will have, as a component part, savings effected by large scale production and manufacturing operations incident not merely to profitable, but to unprofitable, sales, while segregated selling prices will not reflect this factor. In other words, the loss-producing sales will be considered in ascertaining an average cost, but will be disregarded in the computation of the selling price.

**The conflict of authorities.** The decision of the Circuit Court of Appeals that a continuous manufacture of an infringing product can under no circumstances be treated as a single continuous infringement is in conflict with decisions of the Circuit Courts of Appeals for the Sixth and Seventh Circuits, as well as with an earlier decision of the Circuit Court of Appeals for the Third Circuit, where accountings were so conducted in circumstances comparable to the present case:

*Union Electric Welding Co. v. Curry, supra,* 279 Fed. 465, 466-467 (C. C. A., 6th Cir.);

*Western Glass Co. v. Schmertz Wire Glass Co.,* 226 Fed. 730, 732, 734 (C. C. A., 7th Cir.), certiorari denied, 239 U. S. 648;

*Macbeth-Evans Glass Co. v. L. E. Smith Glass* Co., *supra,* 23 Fed. (2nd) 459 (C. C. A., 3rd Cir.), affirming 21 Fed. (2nd) 553, 555.

In the *Union Elec. Welding Co.* case, the infringement was treated as a whole for the purpose of permitting the

infringer to deduct as an item of expense his losses for the first year of the infringement because it was "a part of the expense incurred in working up the business and bringing about the profits in the later period" (page 467).

Judge Schoonmaker, in deciding the instant case in the District Court, relied upon the *Macbeth-Evans* case, *supra,* in ruling that the infringement should be treated as a single continuous act. In the *Macbeth-Evans* case, the Circuit Court of Appeals had specifically approved, on all matters here material, as "an illuminating discussion of the law" an opinion of the District Court wherein it had been ruled (21 Fed. (2nd) 553, 555):

> "While the defendant was an infringer, it was carrying on a regular and continuous business, during the period of its operations in the manufacture of the infringing lenses. In this continuous business, the infringing lenses cannot be treated separately as constituting a vast number of separate infringements."

The alternative chosen by the Circuit Court of Appeals in the case at bar, namely, a computation of profit by deducting an average cost from a specific selling price, is in conflict with a well-reasoned opinion that such a computation should not be made where average costs do not fairly reflect actual costs: *Christensen v. National Brake & Elec. Co.,* 10 Fed. (2nd) 856, 870-871 (E. D. Wis.). The remaining alternative, a computation of profits by the deduction of an average cost from an average selling price, although not discussed in any of the opinions in the case at bar, was applied by Mr. Justice Nelson, presiding in the Circuit Court for the Southern District of New York: *Tatham v. Lober,* 4 Blatch. 86.

## IV.

### May General Damages Be Awarded Without Giving the Defendants an Opportunity to Calculate the Plaintiff's Actual Damages?

**The ruling.** The Circuit Court of Appeals has ruled (R. 1162-1164) that general damages may be awarded without regard to whether the plaintiff's actual damages are susceptible of calculation and determination with reasonable accuracy. The plaintiff made no attempt to demonstrate that these damages could not be calculated; indeed, it submitted some evidence in support of such a calculation (Master's Report, R. 1031-1034). Desiring to demonstrate that the plaintiff's actual damages could be computed and that they were small, the defendants sought (R. 671-676, 947), but the plaintiff (R. 676), sustained by the Master (R. 676, 775-776, 948), refused to permit the defendants to examine the plaintiff's books and records for the purpose, among others, of demonstrating the true extent of the plaintiff's damages.

**The error of the ruling.** Revised Statutes, Section 4921, the controlling enactment (*infra,* page 44), did not make provision for an award of general damages in lieu of an award based upon a defendant's profits or a plaintiff's actual damages until 1922, when such provision was inserted by way of amendment. The statute squarely conditions the right to secure general damages as follows:

> "If * * * such damages or profits are not susceptible of calculation and determination with reasonable certainty, * * * the court may adjudge and decree the payment by the defendant to the complainant of a reasonable sum as profits or

general damages for the infringement." (black face type ours).

There is sound policy behind this statutory condition precedent, this subordination of a guess to a calculation. If a plaintiff's actual or specific damages can be computed or a defendant's actual profits determined, there is no justification for going beyond the alternative most favorable to the plaintiff and penalizing a defendant by entering a decree for something other than that which the plaintiff has lost or the defendant has gained.

**The conflict of authorities.** The decision of the Circuit Court of Appeals on this point is in conflict with decisions of the Circuit Courts of Appeals for the Second and Sixth Circuits, in each of which the court has ruled that it is a **statutory condition precedent** to an award of general damages (reasonable royalty) that actual damages be not susceptible of calculation and determination with reasonable certainty:

*Wallace & Tiernan Co. v. Syracuse, supra,* 45 Fed. (2nd) 693, 694-695 (C. C. A., 2nd Cir.);

*Overman Cushion Tire Co. v. Goodyear Tire & Rubber Co.,* 66 Fed. (2nd) 361 (C. C. A., 2nd Cir.);

*Alliance Securities Co. v. De Vilbliss Mfg. Co.,* 76 Fed. (2nd) 503, 505 (C. C. A., 6th Cir.);

*Enterprise Ry. Equipment Co. v. Wine Ry. Appliance Co.,* 77 Fed. (2nd) 159, 161 (C. C. A., 6th Cir.).

The Circuit Court of Appeals in the instant case concedes that the *Wallace* case is in conflict with its ruling (R. 1163), but minimizes the conflict by the assertion that the case has been distinguished on its facts in *Cincinnati Car Co. v. New York Rapid Transit Corp., supra,* 66 Fed. (2nd) 592, 595. An examination of the

latter case will show that it qualified in no particular the ruling of the *Wallace* case on the issue now under discussion. Indeed the Circuit Court of Appeals for the Second Circuit specifically approved and applied the *Wallace* case on this issue in *Overman Cushion Tire Co. v. Goodyear Tire & Rubber Co., supra,* 66 Fed. (2nd) 361.

## V.

## Interest.

**The ruling.** The Circuit Court of Appeals has ruled that interest on an award of general damages may be imposed from the date of last infringement. Infringement ceased on May 30, 1930, the Master's Report was made on January 12, 1934, and the decree of the District Court was entered July 2, 1934. Interest thus awarded for the period May 30, 1930, to July 2, 1934, amounts to $101,459.57 (R. 1111-1112).

**The error of the ruling.** Both the opinions of the District Court (R. 1110) and the Circuit Court of Appeals (R. 1153, 1162) recognize that the award in the instant case was one of "general damages". The applicable portion of the controlling statute (*infra,* page 44) speaks of "general damages", but makes no reference to a "reasonable royalty". The last mentioned expression has no status except as a label by which to measure an award of general damages. General damages are necessarily unliquidated until fixed by a master or a court. It is submitted that the ruling in the instant case that such an award should bear interest from the date of the last infringement—years prior to the liquidation of the damages—does violence to the well-established principle that unliquidated damages should not bear interest until liquidated, for not until then does a defendant have an opportunity to pay them. A contrary

ruling can only be based on the specious argument that there is an analogy between general damages measured by a so-called reasonable royalty and an unpaid contractual royalty, on which latter item interest properly runs from the date when payment was contractually due. The analogy falls because it contrasts an unliquidated tort claim with a liquidated contractual obligation. Such an argument would have merit only in those cases where there was proof of an **established** royalty and damages were measured by it, for then it might be argued that the basis for computing the amount due and the time when it should have been paid could have been determined. But in the case at bar there was no such **established** royalty and consequently no such proof (Master's Report, R. 1030-1031). The argument, in the absence of an established royalty, is simply an erroneous deduction from the non-statutory yardstick or label of "reasonable royalty" illustrating again what Mr. Justice Cardozo has termed "the repression of a formula, the tyranny of tags and tickets" (44 Harvard Law Review, 682, 688).

**The conflict of authorities.** The decision of the Circuit Court of Appeals on the allowance of interest is a decision of a Federal question in apparent conflict with applicable decisions of this Court and in clear conflict with those of various Circuit Courts of Appeals. It has long been settled by decisions of this Court that **actual** damages, either measured by a demonstrated loss to the plaintiff or an established profit to the defendant, bear interest from the date of their liquidation by an award, rather than from the date of infringement:

*Mowry v. Whitney, supra,* 14 Wall. (U. S.) 620, 653;

*Tilghman v. Proctor, supra,* 125 U. S. 136, 160-161;

*Crosby Steam Gage & Valve Co. v. Safety Valve Co., supra,* 141 U. S. 441, 457-458.

Many earlier decisions of this Court to the same effect are cited in these opinions. While several recognize that interest from an earlier date may be allowed in special circumstances, such as a willful and deliberate infringement or a delay in the accounting for which the defendant is responsible, **the rule is strictly enforced that in the absence of such special circumstances interest runs only from the date of liquidation.** Thus in *Mowry v. Whitney, supra,* a decree allowing interest from an earlier date was **reversed,** the court ruling (page 653):

> "We add only that in our opinion the defendant should not have been charged with interest before the final decree. The profits which are recoverable against an infringer of a patent are in fact a compensation for the injury the patentee has sustained from the invasion of his right. They are the measure of his damages. Though called profits, **they are really damages, and unliquidated until the decree is made.** Interest is not generally allowable upon unliquidated damages. We will not say that in no possible case can interest be allowed. It is enough that the case in hand does not justify such an allowance." (black face type ours).

The ruling of this Court has been consistently followed by the various Circuit Courts of Appeals in many decisions that interest on an award measured by an infringer's **profits** may only be allowed from the liquidation of such profits by the report of a master or the decree of a court, such cases including among others:

*Stromberg Motor Devices Co. v. Detroit Trust Co., supra,* 44 Fed. (2nd) 958, 966 (C. C. A., 7th Cir.);

*Producers' & Refiners' v. Lehmann,* 18 Fed. (2nd) 492, 496 (C. C. A., 8th Cir.);

*Metallic Rubber Tire Co. v. Hartford Rubber Works Co.,* 275 Fed. 315, 324-326, certiorari denied, 257 U. S. 650.

Similarly the rulings of this Court on interest have been followed in cases where the award was based on a plaintiff's **actual damages:**

*Rose v. Hirsch,* 94 Fed. 177, 180 (C. C. A., 3rd Cir.);

**National Folding-Box & Paper Co. v. Elsas,* 81 Fed. 197; affirmed 86 Fed. 917, 923 (C. C. A., 2nd Cir.).

Damages of the character ruled by the foregoing cases are obviously more nearly liquidated prior to their determination by the fact-finding body than are the "general damages" awarded in the instant case. One would assume that the rule of this Court restricting interest to the period following the date of liquidation would be applied *a fortiori* to awards of general damages. It has been so decreed in awarding general damages measured by a reasonable royalty:

*Fox Typewriter Co. v. Underwood Typewriter Co.,* 287 Fed. 453, 455 (C. C. A., 6th Cir.);

*Dowagiac Mfg. Co. v. Deere & Webber Co.,* 284 Fed. 331, 350-351 (C. C. A., 8th Cir.);

*Munger v. Perlman Rim Corp.,* 275 Fed. 21, 23 (C. C. A., 2nd Cir.); certiorari denied, 257 U. S., 645;

*Dunkley Co. v. Vrooman,* 272 Fed. 468, 469 (C. C. A., 6th Cir.).

The Circuit Court of Appeals in the instant case concedes that there are **"cases of equal authority both ways"** (R. 1165), citing, however, three which have departed from the long-established rule. Each leans heavily on (1) circumstances indicating a willful

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* Accord: *Auto Vacuum Freezer Co. v. Wm. A. Sexton Co.,* 250 Fed. 459, 469 (S. D. N. Y.); *Westinghouse v. New York Air Brake Co.,* 133 Fed. 936 (S. D. N. Y.).

and deliberate infringement, or (2) an unconscionable delay in the accounting for which the defendant is responsible. Conflict is conceded in one of the cases cited (R. 1165) by the court: *National Tube Co. v. Mark, supra,* 10 Fed. (2nd) 430, 433 (C. C. A., 6th Cir.). Such other rulings as may be cited to the same effect will be found to rest on equally peculiar circumstances or on an **established** royalty. This is necessarily so because, as Judge Taft remarked in *National Folding-Box & Paper Co. v. Dayton Paper-Novelty Co.,* 97 Fed. 331, 332, (S. D. Oh.), in reversing, on rehearing, a previous ruling of his own to the contrary.

> "an examination of all the cases in the Supreme Court shows the greatest reluctance on the part of that court to allow interest in a patent case before the master has liquidated the damages."

The Circuit Court of Appeals has ruled in the instant case that interest may be imposed for a period prior to the liquidation of general damages, **although the infringement was conducted in good faith and there is no charge of delay in connection with the accounting.** It is said (R. 1166) that the matter is one within the court's discretion, but it will be seen from the foregoing decisions that such discretion may be exercised only in the event of an infringement in bad faith, an unreasonable delay in accounting, or a comparable circumstance. The Court's explanation (R. 1166) that such an interest allowance was recommended by the Master is plainly erroneous, for the Master made no recommendation as to interest. The District Court acted (R. 1110) on the authority of a case where the infringement had been in bad faith.

Respectfully submitted,

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## APPENDIX.

Revised Statutes § 4921, as amended by Act of March 3, 1897, c. 391, § 6, 29 Stat. 694; and Act of February 18, 1922, c. 58, § 8, 42 Stat. 392; 35 U. S. C., § 70, provides in part as follows:

"The several courts vested with jurisdiction of cases arising under the patent laws shall have power to grant injunctions according to the course and principles of courts of equity, to prevent the violation of any right secured by patent, on such terms as the court may deem reasonable; and upon a decree being rendered in any such case for an infringement the complainant shall be entitled to recover, in addition to the profits to be accounted for by the defendant, the damages the complainant has sustained thereby, and the court shall assess the same or cause the same to be assessed under its direction. If on the proofs it shall appear that the complainant has suffered damage from the infringement or that the defendant has realized profits therefrom to which the complainant is justly entitled, but that such damages or profits are not susceptible of calculation and determination with reasonable certainty, the court may, on evidence tending to establish the same, in its discretion, receive opinion or expert testimony, which is hereby declared to be competent and admissible, subject to the general rules of evidence applicable to this character of testimony; and upon such evidence and all other evidence in the record the court may adjudge and decree the payment by the defendant to the complainant of a reasonable sum as profits or general damages for the infringement."